

May 6, 1997

## **SUMMARY**

**Testimony** of Thomas F. **Kehoe** to Committee on **Commerce** Subcommittee on Energy and Power on Friday, May **9, 1997** at Dallas, Texas. Subject of **the** hearing is Electric Utility Industry **Restructuring**.

1. Introduction and brief personal business background of Tom Kehoe.
2. Discuss Competition in general business. **Without** competition, service declines and costs escalate.
3. Deregulation of other Industries has proven beneficial to the consumer in the last decade. **When the** customer **has no choice** they sre not really being served.
4. **Large** power providers need to run their business as **true** entrepreneurial independent business people do.
5. Utility stocks would benefit because better managed businesses usually have higher performing stocks.
6. If we are better serving the consumer then Rural Electric Coops should be included in the restructuring.
7. We need brilliant leadership to force large power providers to bring the best product at the lowest cost to every person in America.

Good morning. My name is Thomas Francis **Kehoe** and I would like to take **this** opportunity to thank this distinguished body for allowing me to appear before you and give you my thoughts and **feelings** regarding the proposed restructuring of Electric Utilities.

**I am the owner of a small, three to five million dollar company that** supplies parts to the Submersible Pump segment of the Oil **Industry** and supplies parts to the Electrical Transformer **Industry**. So, **I** am **hue** as a businessman who **fervently** believes in the Free **Enterprise System** and as a proud Taxpayer, both corporately and privately, who believes that any monopoly is **in** the long run, detrimental to the consumer. My oil field customers believe passionately in **the** Free Enterprise, Free Market philosophy and I have **the** same personal long standing belief.

For over thirty years now I have sold products used in manufacturing transformers to every major **manufacturer across** the length and breadth of these United States. When **you** make sales calls on Westinghouse, **General** Electric, McGraw Edison, Cooper Power, Howard Industries and a host of smaller independent people, you learn something very quickly about **competition**. And really, that is what we are discussing here today. Competition is the fuel that feeds the fires of America, **that run the** engines of the greatest industrial nation the world has ever known. Without competition, in any industry, it has been proven beyond any reasonable doubt, that service declines and costs escalate.

Now. **I am** not telling you something that you have not heard many times before, but you are probably hearing it for the first time from a small businessman from Marble Falls, TX who has to run his business within a budget, has to offer goods and services that are more than competitive **from** a quality standpoint, and has to offer prices that are **always** competitive to the end user. In the distribution business there is an old axiom that **you** have to be competitive in quality and price, but service to the customer is the difference between having a business and not having a business. All of this business is fueled by competition - a situation **that** is undeniably good for the end user, the customer, the person that eventually pays **us** all in almost any business you can name.

It has been proven within the last decade or so that deregulation of certain industries, most notably the Airlines, the telecommunications, and the trucking industries has resulted in forcing them to be better business people, and resulting in lower and more equitable costs to the consumer. Speaking of the Airline Industry, many of us in Texas believe that our own Southwest Airlines, with Herb Kelloher and his people, had more to do with lower prices for the airline customer than any government deregulation ever did. Once again this was free enterprise at its classic best. Provide a better service at a lower cost and people will line up to buy the service. Why? Because they have a choice! I don't see any difference in the comparison of the Utility Industries to the other Industries I have just mentioned in this scenario. When there is no choice for the consumer, the consumer is not really being served. And what are we really talking about here today? We don't need additional years of Protectionism, we don't need favorable treatment of large utilities and most of all we don't need to at the expense of the consumer.

In a sales business I can assure you, the most important single factor is managing your costs. It doesn't matter how much you sell - if your costs exceed your sales, you won't have a business. Plain and simple! We all know that! I have won&red for many years how large power providers run their businesses. I have read in the paper throughout the years of large cost overrun on generating plants, and distribution grids and substations. When I have a cost overrun in my business on a project or a sale of some specific items, I pay for it. Who pays for theirs? I think the answer is obvious - the consumer! This goes back to a basic point I've been trying to make here - no competition - no free enterprise equals no responsibility to the customer.

I understand why the current large power suppliers want a status quo. They do not necessarily have to manage their business as a true independent, entrepreneurial business person has to. They have to answer to boards of directors, to stock holders and perhaps to Wall Street moguls but once again, not to the customer. Why? Simply because the customer

**does not have a choice!** For years **Utility stocks** have been relatively **safe** “**lockbox**” type of stock that you **could always** count on to pay a dividend and hold their relative **value**. They **were sound**, although not **spectacular** investments **because** they were a **basic monopoly** and the **customer** had **nowhere else to go for** Rower. I **would be a more secure businessman if I could charge my customers on a cost plus basis with little regard to value** and competition. This is **not my real world however**. I **believe competition** in the utility **industry** would help stocks in the long run. Better run businesses usually have higher performing **stocks**.

While we are discussing serving the consumer, the customer, I would like to ask why **Rural Electric** Cooperatives are being offered the opportunity to opt out of being included in proposed legislation? I have been personally involved with many Coops in many States throughout my career. I realize they have been considered “Sacred Cows”! in the years **past**. What puzzles me is that most Coops I have been associated with would be the single greatest examples of the lack of **free enterprise** that any capitalist could envision. I know many fine dedicated people that work for Coops but **they** do not run their business as **I** nut mine. For example, they have little interest in purchasing products at a competitive price. If they were in the free enterprise system they would have to address costs of raw materials. But **they** don’t have to - with their charter they can borrow money from our government for significantly lower rates than I can **from** my **local** bank and their costs are not of paramount importance. Here in Texas, which may be one of the largest Electric Cooperatives in the United States, I know they pay hundreds of thousands per year more, for transformer winding supplies than they could purchase from a number of suppliers who could give equality in products and services. How **can** they afford to do that? Because they don’t have **to run their business as a profit center as millions of us** do. They simply pass **the** increased costs onto the consumer, who once **again, has no choice!** I feel the people in Rural America, have at the very **least**, the same rights to competitive power sources **as** large city customers have.

**When the REC was formed under FDR it was a masterful stroke to** bring **much** needed power to rural **America**. Today, we aced an **equally** brilliant leader to take thii one step **further**, to **force** these providers to be better businessmen and women and to do what is right, what is just **and** what is in the best interest of the American people. All of the power providers have but one mission and that is to bring the best product, with the best service at the lowest cost to every American, every man, woman, and child in this land, and that mission should **also** include to **do it now!**

**I** thank you once again for **allowing** me to speak to you. It has been a distinct privilege and honor to represent my fellow Americans before you today.

**Respectfully,**

Thomas F. Kchoe